

AR46

Annual Report

**COSMOS
IMPERIAL
MILLS,
LIMITED**

1970

1970 ANNUAL REPORT

**COSMOS IMPERIAL
MILLS, LIMITED**

and its wholly owned subsidiaries

J. SPENCER TURNER CO. LIMITED

and

YARMOUTH INDUSTRIAL FABRICS LIMITED

DIRECTORS

Residence

DONALD M. CAIN

YARMOUTH, NOVA SCOTIA

Vice-President and Resident Director, Cosmos Imperial Mills, Limited

WILLIAM J. CHEESMAN

BURLINGTON, ONTARIO

President, Canadian Westinghouse Company, Limited

RONALD K. FRASER

HAMILTON, ONTARIO

President and Chief Executive Officer, Fleet Manufacturing Limited

E. DOUGLAS JAMES

ANCASTER, ONTARIO

President, Cosmos Imperial Mills, Limited

ROBERT N. STEINER

ANCASTER, ONTARIO

Senior Partner, A. E. Ames & Company

ALAN V. YOUNG

HAMILTON, ONTARIO

Chairman of the Board, The Hamilton Cotton Company, Limited

WILLIAM H. YOUNG

ANCASTER, ONTARIO

Chairman of the Board, Cosmos Imperial Mills, Limited

OFFICERS

WILLIAM H. YOUNG, Chairman of the Board

E. DOUGLAS JAMES, President and Chief Executive Officer

GORDON B. LAWRENCE, Senior Vice-President

DONALD M. CAIN, Vice-President and Resident Director

G. HOWARD PULLAM, Vice-President, Sales

PAUL A. SOUTHALL, c.a., Vice-President, Finance and Secretary-Treasurer

<i>LEGAL COUNSEL</i>	EVANS, HUSBAND	HAMILTON, ONTARIO
----------------------	----------------	-------------------

<i>AUDITORS</i>	CLARKSON, GORDON & Co.	HAMILTON, ONTARIO
-----------------	------------------------	-------------------

<i>STOCK TRANSFER AGENTS</i>	THE ROYAL TRUST COMPANY	TORONTO, ONTARIO
------------------------------	-------------------------	------------------

<i>REGISTRARS</i>	THE BANKERS' TRUST COMPANY	TORONTO, ONTARIO
-------------------	----------------------------	------------------

<i>HEAD OFFICE</i>		HAMILTON, ONTARIO
--------------------	--	-------------------

<i>MILLS</i>	HAMILTON, ONTARIO, AJAX, ONTARIO, TRENTON, ONTARIO, MARYSVILLE, NEW BRUNSWICK, YARMOUTH, NOVA SCOTIA	
--------------	---	--

45

FORTY-FIFTH ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 1970

TO THE SHAREHOLDERS

Your Directors submit herewith the forty-fifth annual report and financial statements for the year ended December 31, 1970.

BUSINESS CONDITIONS

Sales in 1970 were \$15,914,627. The increase reflects the inclusion of the additional operations acquired from The Hamilton Cotton Company, Limited for the full year of 1970 while the comparison for 1969 includes those operations for nine months only. Volume, on the whole, was disappointing.

On May 14, 1970 the Federal Government announced a textile policy which, if implemented, should alleviate some of the disruptive actions of low-price countries in our market. To date the enabling legislation has not become effective, although consultations have been held which hopefully indicate a greater realization by the authorities of serious situations in our industry. Not only are the low-price countries affecting our prices and volumes directly, but they are expanding their exports of finished products to Canada and causing hardship to our customers as well as to ourselves. Until effective legislative and administrative action is taken, the outlook for stable markets and a return to profitable operations remains uncertain.

Overhead expense reductions and other cost improvements continued to be made but increased costs of items not under our direct control, together with the loss of business consequent upon the closing of several of our major customers, more than absorbed the cost savings made. The planned restructuring of our mills, organization, and products progressed throughout the year and will continue in the expectation that a reasonable business climate will be created soon.

FINANCIAL

After providing for all expenses, including depreciation of plant and equipment of \$573,897, the loss from operations was \$1,371,929. Other income and recovery of income taxes reduced the net loss for the year to \$1,173,432.

Working capital was greatly reduced during the year and at December 31, 1970 was \$703,352. A continuation of this rate of loss would be completely unacceptable.

EMPLOYEES

The Directors express their great appreciation for the loyal support of our employees who have done so much during the discouraging year, especially those whose incomes are not commensurate with those in other industries and today's cost of living.

On behalf of the Board,

E. DOUGLAS JAMES,

President.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF COSMOS IMPERIAL MILLS, LIMITED:

We have examined the consolidated balance sheet of Cosmos Imperial Mills, Limited and its wholly-owned subsidiaries as at December 31, 1970 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & Co.,
Chartered Accountants.

Hamilton, Canada,
March 12, 1971.

COSMOS IMPERIAL MILLS, LIMITED

(INCORPORATED UNDER THE LAWS OF CANADA)
AND ITS WHOLLY-OWNED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1970

(with comparative figures at December 31, 1969)

ASSETS

CURRENT

	<u>1970</u>	<u>1969</u>
Accounts receivable	\$ 2,335,892	\$ 2,408,913
Inventories (note 1)	4,844,266	5,096,822
Prepaid expenses	<u>130,481</u>	<u>64,081</u>
Total current assets	7,310,639	7,569,816

FIXED (note 2):

Land, buildings and equipment valued substantially at cost	10,921,065	10,952,134
Less accumulated depreciation	<u>5,346,236</u>	<u>4,814,295</u>
	5,574,829	6,137,839

<u>\$12,885,468</u>	<u>\$13,707,655</u>
---------------------	---------------------

See accompanying notes to the financial statements.

LIABILITIES

CURRENT

	<u>1970</u>	<u>1969</u>
Bank indebtedness (note 3).	\$ 5,590,495	\$ 4,854,948
Accounts payable and accrued charges.	504,718	666,380
Income and other taxes payable	154,296	50,626
Current instalments on bonds (note 4).	357,778	178,889
Total current liabilities	<u>6,607,287</u>	<u>5,750,843</u>

LONG TERM

7% first mortgage sinking fund bonds of a subsidiary company (note 4)	1,792,222	1,971,111
DEFERRED PROFIT on sale of equipment (note 5).	270,622	405,932
DEFERRED INCOME TAXES (note 6)	113,000	304,000

SHAREHOLDERS' EQUITY

Capital stock —

Authorized — 500,000 common shares without par value

Issued — 500,000 common shares 2,684,883 2,684,883

Retained earnings (statement 2) 1,417,454 2,590,886

4,102,337 5,275,769

\$12,885,468 \$13,707,655

On behalf of the Board:

WILLIAM H. YOUNG, *Director*

E. DOUGLAS JAMES, *Director*

COSMOS IMPERIAL MILLS, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1970

(1) INVENTORIES —

The inventories are valued at the lower of cost and net realizable value and consist of the following:

	<u>1970</u>	<u>1969</u>
Raw materials	\$ 1,196,225	\$ 1,369,637
Work in process	1,450,154	1,256,941
Finished goods	2,176,277	2,446,271
Factory supplies	21,610	23,973
	<u>\$ 4,844,266</u>	<u>\$ 5,096,822</u>

(2) FIXED ASSETS —

The major categories of fixed assets are as follows:

	<u>December 31, 1970</u>			<u>Net book value December 31, 1969</u>
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	
Land	\$ 80,251	—	\$ 80,251	\$ 80,251
Leasehold improvements	102,869	\$ 22,005	80,864	81,599
Buildings	4,023,215	1,662,854	2,360,361	2,498,311
Machinery and equipment.	6,714,730	3,661,377	3,053,353	3,477,678
	<u>\$10,921,065</u>	<u>\$5,346,236</u>	<u>\$5,574,829</u>	<u>\$6,137,839</u>

Leasehold improvements are amortized on the straight-line basis over the terms of the leases.

Buildings constructed prior to 1967 are depreciated on the declining balance method at a rate of 5% per annum and the remainder on the straight-line method at a rate of 5%.

Machinery and equipment is depreciated on the straight-line basis using a rate of 7½% per annum except for automotive equipment which is depreciated on the declining balance method using a rate of 30% per annum.

COSMOS IMPERIAL MILLS, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1970

(3) BANK INDEBTEDNESS —

The bank loan is secured by a general assignment of book debts and inventories. Subsequent to the year-end the company assigned a debenture to the bank secured by a floating charge on all of the company's assets.

(4) 7% FIRST MORTGAGE SINKING FUND BONDS OF A SUBSIDIARY COMPANY —

Authorized:

Series A — repayable by equal annual instalments of \$88,889 on September 30 in each of the years 1970 to 1976 inclusive \$ 720,000

Series B — repayable by equal annual instalments of \$90,000 on September 30 in each of the years 1970 to 1986 inclusive 1,580,000
\$ 2,300,000

Issued:

Series A \$ 620,000
Series B 1,530,000
2,150,000

Less principal repayments due within one year 357,778
\$ 1,792,222

The payments required by the sinking fund provision due September 30, 1970 have not been paid, but the company has since negotiated an agreement with the bondholders to meet these payments by six monthly instalments in 1971.

(5) DEFERRED PROFIT ON SALE OF EQUIPMENT —

In 1964 the company sold certain equipment and leased it back for a period of eight years at an annual rental of \$188,516 payable in equal monthly instalments. Upon expiry of the initial term the lease is renewable at the option of the company for eight successive terms of one year each at substantially reduced rentals.

COSMOS IMPERIAL MILLS, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1970

The profit on the sale is being taken into income on a straight-line basis over the initial term of the lease (\$135,311 per annum). The unamortized balance is included in the accompanying balance sheet under the caption "Deferred profit on sale of equipment".

(6) INCOME TAXES —

A subsidiary company, qualified for tax exemption on profits earned in the three years ended March 31, 1970 under Section 71A of the Income Tax Act, has recorded depreciation charges which, together with a portion of the losses incurred by the parent company in 1968, 1969 and 1970, will be available for deduction from taxable income of future years within certain limitations prescribed by the Act. The consequent reduction in income taxes, if realized, would amount at current rates to \$1,493,000 (\$663,000 arising from 1970 operations). This reduction is not reflected in the accounts.

During the year, the company received income tax re-assessments for certain prior years which, if sustained, would require additional provisions for taxes currently payable of \$84,000 and for deferred income taxes of \$182,000 as of December 31, 1970. Furthermore, the anticipated saving in income taxes arising from losses of 1968, 1969 and 1970 referred to above would be reduced by \$224,000 and income taxes payable on future years' profits would be increased by approximately \$179,000. No provision has been made for such increased taxes, as the company has filed notices of objection and in the opinion of management and counsel the re-assessments will not be sustained.

(7) COMMITMENTS AND CONTINGENT LIABILITIES —

The company has leased land, buildings, machinery and equipment for varying terms up to 1989 and in some cases has an option to purchase the leased property at expiry. Rental expense for the year ended December 31, 1970 aggregated \$1,066,470. Rentals for existing leases will aggregate \$1,000,000 for 1971 and lesser amounts in subsequent years.

The company has guaranteed the bank indebtedness of a supplier to the extent of \$100,000.

(8) STATUTORY INFORMATION —

As required by Section 120B of the Canada Corporations Act, it is reported that expenses of the company and its subsidiaries for 1970 include:

Remuneration of seven directors as directors	\$ 8,400
Remuneration of six officers as officers (of whom three are directors)	126,860

COSMOS IMPERIAL MILLS, LIMITED

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS YEAR ENDED DECEMBER 31, 1970

(with comparative figures for 1969)

	<u>1970</u>	<u>1969</u>
Sales	\$15,914,627	\$14,690,312
Costs and expenses other than the following	<u>16,184,713</u>	<u>14,486,746</u>
Income (loss) from operations before the following deductions	<u>(270,086)</u>	<u>203,566</u>
Depreciation	573,897	573,880
Bank interest	375,653	284,703
Bond interest	<u>152,293</u>	<u>158,275</u>
	<u>1,101,843</u>	<u>1,016,858</u>
Loss from operations	<u>1,371,929</u>	<u>813,292</u>
Income from investments	<u>—</u>	<u>30,515</u>
Loss before income taxes recoverable and profit on sale of investments	<u>1,371,929</u>	<u>782,777</u>
Income taxes recoverable (note 6)	<u>191,000</u>	<u>190,000</u>
Loss before profit on sale of investments	<u>1,180,929</u>	<u>592,777</u>
Profit on sale of investments	<u>7,497</u>	<u>183,792</u>
Loss for year	<u>1,173,432</u>	<u>408,985</u>
Retained earnings at beginning of year	<u>2,590,886</u>	<u>3,149,871</u>
	<u>1,417,454</u>	<u>2,740,886</u>
Dividends paid (nil in 1970, 30¢ per share in 1969)	<u>—</u>	<u>150,000</u>
Retained earnings at end of year	<u>\$ 1,417,454</u>	<u>\$ 2,590,886</u>

See accompanying notes to the financial statements.

COSMOS IMPERIAL MILLS, LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS, YEAR ENDED DECEMBER 31, 1970

(with comparative figures for 1969)

	<u>1970</u>	<u>1969</u>
SOURCE OF FUNDS:		
Proceeds from sale of investments and advances	\$ 7,497	\$ 1,546,263
Issue of common shares.	—	1,000,000
Special refundable tax recovered		7,674
Total source of funds	<u>7,497</u>	<u>2,553,937</u>
APPLICATION OF FUNDS:		
Operations —		
Loss for year before profit on sale of investments	1,180,929	592,777
Add (deduct):		
Depreciation	(573,897)	(573,880)
Deferred income taxes	191,000	190,000
Amortization of deferred profit on sale of equipment	135,311	135,311
	<u>933,343</u>	<u>344,208</u>
Purchase of fixed assets (net)	10,886	294,564
Repayment of long term bank loan	—	550,000
Provision for repayment of bonds	178,889	180,000
Dividends	—	150,000
Total application of funds	<u>1,123,118</u>	<u>1,518,772</u>
Increase (reduction) in working capital	(1,115,621)	1,035,165
Working capital at beginning of year	1,818,973	783,808
Working capital at end of year.	<u>\$ 703,352</u>	<u>\$ 1,818,973</u>

See accompanying notes to the financial statements.

COSMOS IMPERIAL MILLS, LIMITED

EXECUTIVE OFFICES,
304 MARY STREET,
HAMILTON, ONTARIO, CANADA.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Shareholders of Cosmos Imperial Mills, Limited, will be held at the Sheraton-Connaught Hotel, 112 King Street East, Hamilton, Ontario, Canada, on Friday, the 28th day of May, 1971, at 10.30 a.m. (eastern daylight-saving time), for the following purposes:

- (a) Receiving the Annual Report of the Directors to the Shareholders and the Financial Statements for the year ended December 31, 1970;
- (b) Electing Directors;
- (c) Appointing Auditors and authorizing their remuneration;
- (d) Transacting such other business as may be properly brought before the meeting.

Shareholders who are unable to attend the Meeting in person are requested to date, sign and return the enclosed form of Instrument of Proxy in the envelope enclosed for that purpose. A copy of the annual report and consolidated financial statement is enclosed.

DATED at Hamilton, this 8th day of April, 1971.

BY ORDER OF THE BOARD OF DIRECTORS,

P. A. SOUTHALL,

Secretary.

COSMOS IMPERIAL MILLS, LIMITED

INFORMATION CIRCULAR

SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation by the management of Cosmos Imperial Mills, Limited (the Company) of proxies to be used at the Annual General Meeting of Shareholders of the Company to be held at the time and place and for the purposes set forth in the enclosed notice of meeting. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited personally by regular employees of the Company at nominal cost.

The total cost of solicitation will be borne by the Company.

REVOCABILITY OF PROXIES

A shareholder executing the enclosed proxy may revoke it by instrument in writing signed by the shareholder or by his attorney authorized in writing, or if a corporate shareholder, by a duly authorized officer or attorney thereof under its corporate seal. The instrument revoking such proxy must be deposited either at the head office of the Company at any time up to the last business day preceding the day of the meeting or any adjournment thereof, at which the proxy is to be used or with the chairman of such meeting on the day of the meeting, or adjournment thereof.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. **In the absence of such direction, such shares will be voted for the approval of the directors, report and financial statements, the election of directors and the appointment of auditors, as stated under those headings in this circular.** The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting, and with respect to other matters which may properly come before the meeting. At the time of printing this circular the management of the Company knows of no such amendments, variations or other matters to come before the meeting other than the matters referred to in the notice of meeting.

VOTING SHARES

Currently the Company has outstanding 500,000 common shares without nominal or par value, each carrying the right to one vote per share. The directors and senior officers of the Company do not know of any person or company beneficially owning, directly or indirectly, shares carrying more than 10% of the voting rights attached to all shares of the Company except The Hamilton Group Limited which owns 100,000 shares which is 20% of the 500,000 shares outstanding.

The directors have fixed May 25th, 1971, as the record date for the determination of the persons entitled to vote at the meeting and accordingly the only persons entitled to attend and vote at the meeting or to be represented thereat by proxy will be registered shareholders of record at the close of business on May 25th, 1971.

ELECTION OF DIRECTORS

The board consists of seven directors to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth below, all of whom are now members of the board of directors and have been since the dates indicated except Gordon B. Lawrence. The management does not contemplate that any of the nominees will be unable to serve as a director but, if that should occur for any reason prior to the meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion. Each director elected will hold office until the next Annual Meeting and until his successor is duly elected, unless his office is earlier vacated in accordance with the by-laws.

COSMOS IMPERIAL MILLS, LIMITED

INFORMATION CONCERNING NOMINEES AS DIRECTORS

Name and Principal Occupation	Year First Became a Director	Voting Common Shares Beneficially Owned Directly or Indirectly April 8, 1971
WILLIAM H. YOUNG President, The Hamilton Group Limited	1951	850
E. DOUGLAS JAMES President of the Company	1960	1520
ROBERT N. STEINER Senior Partner, A. E. Ames & Company	1962	1000
RONALD K. FRASER President, Fleet Manufacturing Limited.	1967	1000
DONALD M. CAIN Vice-President and Resident Director of the Company	1968	1515
WILLIAM J. CHEESMAN President, Canadian Westinghouse Company Limited	1969	100
GORDON B. LAWRENCE Senior Vice-President of the Company (formerly Executive Vice- President — Textiles, The Hamilton Cotton Company Limited) .		20

REMUNERATION OF DIRECTORS AND OFFICERS

- (1) The aggregate direct remuneration paid by the Company and its subsidiaries during the last completed financial year ended December 31, 1970 to the directors and officers was:

To directors as such	\$ 8,400
To officers	\$126,860
- (2) The estimated aggregate cost to the Company and its subsidiaries in its last completed financial year of all pension benefits proposed to be paid under any normal pension plan in the event of retirement at normal retirement age, directly or indirectly, by the Company or any of its subsidiaries to the directors and officers of the Company is \$5,650.
- (3) There are no retirement allowances proposed to be paid in the future by the Company or any of its subsidiaries, pursuant to existing arrangements, to directors or senior officers of the Company (excluding payments under plans referred to in paragraph (2) and payments to be made for or benefits to be received from group life or accident insurance, group hospitalization or similar group benefits or payments).
- (4) Since the commencement of the last completed financial year of the Company the Directors and senior officers of the Company neither have been granted nor have exercised options to purchase common shares of the Company.

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the reappointment of Clarkson, Gordon & Co., Chartered Accountants, Hamilton, as auditors of the Company, to hold office until the next Annual Meeting of Shareholders. Clarkson, Gordon & Co., have been auditors of the Company for more than five years.

BY ORDER OF THE BOARD OF DIRECTORS,
P. A. SOUTHALL, Secretary

DATED April 8, 1971.

